

RECENT DEFAULTS OF GOVERNMENT LOANS

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INTRODUCTION

THE world economic depression has led to a disquieting growth during the past year in the number of governments and political subdivisions which have been compelled to suspend interest and sinking-fund payments on their foreign debts. While it was possible three years ago to point out that only one of all the government loans listed on the New York Stock Exchange was in default,¹ the number has now reached 49, and there is grave danger that others will be added in the near future. Since 1928 the total number of governmental defaults on all markets has increased from 67 to 283, although, since most of the countries involved have been relatively small, the aggregate value of defaulted bonds has increased by only 15 per cent. The distress of debtor countries has been world-wide during 1931. While the financial collapse of Germany and Central Europe was averted, temporarily at least, by the Hoover moratorium, no corresponding step has been taken to aid the South American republics, and a number of them have been forced to default.

On January 1, 1931 Bolivia suspended interest payments on its external debts, totaling more than \$60,000,000, and in February indefinitely postponed negotiations which were then underway to reach a settlement with its creditors.² It is significant that many of the Bolivian loans were guaranteed by liens on specific revenues and by a foreign debt commission.³ The default was attributed primarily to financial losses resulting from the recent unprecedented decline in the price of tin. Bolivia's action was followed shortly by Peru, which announced in March that it could no longer maintain payments on its foreign debts. Both countries fully acknowledged their contractual obliga-

tions, but declared that under present conditions continued payment of interest and sinking fund would bring about economic collapse.⁴

Early in July the Republic of Chile, which had promptly met its external obligations for 58 years, underwent a successful revolution, and on July 16 the head of the provisional government, Premier Blanquier, declared that interest payments on the external debt could not be made in foreign currency. Assurance was given, however, that all loans would be recognized and that the amounts due would be deposited in Chilean currency in the Central Bank of Chile until such time as foreign currency could be obtained for a resumption of payments. Chile's external obligations affected total about \$559,000,000, more than half of which is owed in the United States, and the annual requirement for interest and amortization payments is \$40,567,000. The default is attributed to the critical state of Chile's internal finances, resulting from an unfavorable balance of trade in 1930 and consequent dwindling of its gold reserve.

Three months later the Brazilian government announced its inability to secure foreign exchange to meet interest charges on the majority of its outstanding bonds, and its example was soon followed by the various political subdivisions having foreign obligations. Provision was made, however, for payments during the next three years in scrip bearing 5 per cent interest.

In November Santo Domingo announced the suspension of sinking-fund operations, although promising to continue interest payments for the present.⁵ On December 1 the city of Montevideo, the capital of Uruguay, and the municipality of Medellín, Colombia, defaulted interest payments.⁶ The first default growing out of the critical situation in

1. "Defaults and Repudiations of Foreign Loans," Foreign Policy Association, *Information Service*, Vol. IV, No. 11, August 3, 1928.

2. *New York Times*, February 10, 1931.

3. Cf. Ernest Galarza, "Debts, Dictatorship and Revolution in Bolivia and Peru," *Foreign Policy Reports*, Vol. VII, No. 5, May 13, 1931, p. 105.

4. Cf. Institute of International Finance (New York), *Bulletin* No. 48 (*Securities in Default*), December 7, 1931.

5. *Nuestro Diario* (Guatemala), November 17, 1931.

6. *New York Times*, December 2, 1931.

Central Europe was implied in the announcement of the Hungarian government on December 22 of a partial one-year moratorium on the transfer of payments on foreign debts.

American investments in obligations extended or guaranteed by the Hungarian government or its subdivisions are estimated to total approximately \$54,000,000.^{6a}

CAUSES OF DEFAULT

EXORBITANT OR UNJUST TERMS

There are very few cases on record in which governments have defaulted willfully on legitimate obligations. A comprehensive study of the fiscal records of governments reveals that repudiation has rarely, if ever, been resorted to when borrowing nations have been accorded fair and honorable treatment. When, however, lenders have tried to take advantage of temporarily embarrassed borrowers to exact concessions and have imposed impossibly harsh terms, the debtors, not unnaturally, have refused to go out of their way to discharge their contractual obligations. They will meet payments as long as they possess the means to do so, and, when they lack funds, will try to borrow anew to pay their old debts; but if they fail to secure additional funds, they will have few compunctions in ceasing payments altogether.⁷

UNWISE INVESTMENTS

Another primary cause of defaults lies in unwise lending. During periods of prosperity there is a tendency to extend loans for non-productive purposes or upon very dubious security,⁸ and even pressure has been brought to bear at times to induce foreign governments and municipalities to contract loans which were not desired or necessary. In addition to the danger involved in unproductive individual investments, there is an even greater menace in the too liberal extension of credit during a boom period, even for so-called productive purposes, especially when followed, as boom periods usually are, by an abrupt reduction in the volume of available loans in a period of depression.⁹

The recent financial history of a number of South American countries serves to illustrate this point. During the years 1924 to 1929 Great Britain and the United States made loans to South America of £50,000,000 and \$1,200,000,000 respectively. As a result, boom conditions prevailed; railways were built and public enterprises carried out, imports were greatly increased, wages and prices were raised considerably, and there was a tendency toward over-expansion of production. In 1929 and 1930,^{9a} when the steady flow of credit was cut off, these countries found themselves hard-pressed to meet their interest and sinking-fund obligations.¹⁰

FALL OF COMMODITY PRICES

This task was rendered more difficult by the severe decline in the commodity price level during the last three years. Most of the debtor countries have relied almost entirely upon the export of agricultural products and raw materials, and have suffered a severe loss in the exchange value of their national production.¹¹ The same amount of wheat, coffee, sugar, rubber, silver or copper could not be exchanged either for the same amount of dollars or the same amount of manufactured goods as in former years. The situation demanded additional exports to meet outstanding obligations, but these added exports served to depress prices still further and thereby intensified the problem. Moreover, the fall in the general price level means that debts contracted in terms of gold prior to 1929 represent considerably more purchasing power today than at the time of their arrangement. In other words, the burden of debts and accrued interest is much greater in terms of commodities or services than was originally intended, and the debtor

6a. *New York Times*, December 24, 1931. The Hungarian government 7½ per cent loan, sold under the auspices of the League of Nations, is exempt from the above ruling.

7. In this connection it is significant to note that out of the 250 loans of a known interest rate listed in the following pages as being in default, 114 bore an interest rate greater than 5½ per cent, and in 63 cases the interest charge was 7 per cent or more.

8. The demand for foreign bonds is reported to have been so pronounced at one time that the representative of a non-existent Latin American republic succeeded in interesting a group of London bankers in floating a loan on behalf of his "country."

9. Cf. H. F. Arendtz, *The Way Out of Depression* (New York, Houghton Mifflin, 1931), p. 38.

9a. Cf. Dr. Max Winkler, "Prosperity and Foreign Investments," Foreign Policy Association, *Information Service*, Vol. VI, Supplement No. 1, May 1930, and *idem*, "America's Stake Abroad," *ibid.*, No. 24, Part II, February 4, 1931.

10. Committee on Finance and Industry (Macmillan Committee), *Report* (London, H. M. Stationery Office, 1931), Cmd. 3897, p. 79-84.

11. Cf. *The Course and Phases of the World Economic Depression* (Geneva, Secretariat of the League of Nations, 1931), p. 159-161.

countries in reality are being asked to repay more in both principal and interest than is consistent with the value they received.¹²

The income of every government has been drastically decreased, although the debt

charges have remained stationary. Some conception of the burden of foreign debt charges upon the budgets of the leading South American nations may be obtained from the following table:

Proportion of Revenue Required for External Debt Services in the Chief South American Countries
(Estimates for 1931)

	<i>Amount Needed for Debt Services</i>	<i>Estimated Revenue</i>	<i>Percentage of Revenue</i>
Argentina ¹	\$101,455,500	\$275,925,000	36.9
Bolivia ²	5,840,000	8,030,000	72.7
Brazil	63,000,000 ³	252,094,000 ⁴	25.0
Chile	40,567,000 ⁵	126,568,000 ⁶	32.2
Colombia ⁵	16,000,000	50,328,000	32.0
Peru ⁸	8,639,000	25,200,000	34.3

1. Ernest Galarza, "Argentina's Revolution and Its Aftermath," *Foreign Policy Reports*, Vol. VII, No. 17, October 28, 1931, p. 318.

2. Galarza, "Debts, Dictatorship and Revolution in Bolivia and Peru," cited, p. 109.

3. A. S. Waddell, "The Revolution in Brazil," *Foreign Policy Association, Information Service*, Vol. VI, No. 26, March 4, 1931, p. 498.

4. *A Picture of World Economic Conditions at the Beginning of 1931* (New York, National Industrial Conference Board, 1931), p. 112.

5. *Ibid.*, p. 120-121.

6. Cf. p. 406, footnote 19.

7. *Ibid.*, p. 113.

8. *Bulletin No. 48 (Securities in Default)*, cited, p. 18.

MALDISTRIBUTION OF GOLD

The unequal distribution of the world's gold supply is considered by many authorities to be another factor in increasing the number of defaults which have occurred in the last two years.¹³ The loan contract usually stipulates that repayments shall be made in gold coin of a specified weight and fineness. The fulfillment of this obligation has been rendered virtually impossible, however, since the credit and monetary policy of the United States and other creditor countries has resulted in their obtaining the bulk of the world's gold supply.¹⁴

Several debtor countries, including Argentina, Australia, Brazil and Mexico, have abandoned the gold standard, while very few have been able to make substantial gold payments. In the view of many economists, the normal working of the gold standard has broken down in recent years because the Federal Reserve system of the United States and the Bank of France have deliberately sterilized a large share of their gold holdings. Whereas the influx of gold into a country normally leads to inflation of credit, in-

creased prices and a consequent shifting in the balance of trade which reverses the flow of gold, it is charged that the recent practices of the central banks of France and the United States have prevented inflation from taking place and thereby caused an unduly large share of the world's gold supply to lie idle in bank vaults.¹⁵

TARIFFS AND OTHER RESTRICTIONS

Aside from gold payments and the possibility of securing new credits, debtor nations can meet their obligations only through the export of goods or by services. But, as is the case in regard to gold and credits, the policy of the United States and France, as well as other creditor nations, has tended to make repayment by these methods difficult.¹⁶ Tariffs have been raised continually in this country and abroad, with the avowed object of keeping out foreign goods as much as possible. The result has been a marked restriction in foreign trade, and a tendency to overproduction due to the development of uneconomic industries behind tariff walls. Moreover, the stringent restriction of immigration has caused a sharp decline in immigrant remittances, one of the chief methods of payment by services.¹⁷ Similarly, the sub-

12. Cf. Committee on Finance and Industry, *Report*, cited, p. 91-92.

13. Cf. James Harvey Rogers, *America Weighs Her Gold* (New Haven, Yale University Press, 1931), p. 181-2.

14. According to the latest available figures, the distribution of gold among the leading countries of the world in mid-November was approximately as follows: United States, \$4,350,000,000; France, \$2,650,000,000; Great Britain, \$592,000,000; Switzerland, \$425,000,000; Belgium, \$355,000,000; Holland, \$347,000,000; Japan, \$320,000,000; and Germany, \$247,000,000. These eight nations possessed more than 82 per cent of the world gold supply, estimated at \$11,300,000,000, while France and the United States together possessed 62 per cent of the total world supply.

15. *Ibid.*, p. 96-97; cf. also Committee on Finance and Industry, *Report*, cited, p. 68-69.

16. Cf. Rogers, *America Weighs Her Gold*, cited, p. 80-90, 183, 193 et seq.

17. Immigrant remittances have declined from \$247,000,000 in 1922 to \$223,000,000 in 1929, and \$166,000,000 in 1930. (*Ibid.*, p. 18.)

sidizing of the American merchant marine makes difficult the payment of obligations through shipping, and there are no other services of importance which are now performed largely by foreigners. With these

methods of payment effectively blocked, it is not surprising that a number of countries have found it economically impossible to repay their obligations to the United States, and have been forced into default.

NEED FOR SUPERVISION OF FOREIGN INVESTMENTS

It is obvious that much of the responsibility for the present chaotic state of the international money market must be laid to the lack of effective supervision of any kind. Such supervision might be exercised directly by governments, by the central banks of the various countries, or by special organizations sponsored by the private banks. In general, there are two types of supervision needed which might be performed by different organizations. First, some control over the nature and volume of investments is necessary. Loans should be offered only to borrowers whose economic and financial status is such as to offer acceptable guarantees of repayment, and the total amount of credit extended to foreign countries should be reasonably steady in volume. Second, the interests of the investor should be amply protected both before and after purchasing foreign securities. Every prospective investor is entitled to full and impartial information regarding the financial status of the borrowing country, and every bondholder ought to be assured that all reasonable precautions are being taken to safeguard his

investment. Similarly, the holders of defaulted bonds need some organization to look after their interests and to arrange, if necessary, for the funding of unpaid obligations.

Whether these ends could be achieved without strict state control over investments is still an open question. It is evident, however, that the type of supervision exercised by the State Department in the past over foreign issues has been ineffective in safeguarding the investor,^{17a} and that some new method should be established. In a number of countries protection is obtained for individual investors through private organizations formed for the special purpose of looking after the interests of holders of foreign bonds. Probably the best known of these is the Corporation of Foreign Bondholders of Great Britain.¹⁸ Although purely unofficial, this organization has taken an active part in securing a settlement of outstanding foreign obligations, and has frequently intervened on behalf of individuals whose rights have been prejudiced by the action of foreign governments.

AMOUNT AND PROPORTION OF LOANS DEFAULTED

Despite the difficulties already outlined and the alarming reports which have gone out concerning the suspension of debts already effected by national governments, it is significant that the outstanding amount of government bonds in default, excluding those of Czarist Russia, is slightly less than 1.8 per cent of the world's total indebtedness. This compares very favorably with the situation half a century ago, when 7.5 per cent of the total indebtedness had been repudiated. At present the aggregate par value of funded obligations—internal as well as external—sold on behalf of governments, states, provinces and municipalities, and the loans guaranteed by govern-

ments or political subdivisions on which interest payments are in default, totals \$2,679,007,385, out of issues originally amounting to \$3,002,086,259. Approximately one-tenth of the bonds originally issued had been retired prior to their default. The amount of interest in arrears comes to slightly more than a billion dollars. As the total world indebtedness is estimated to be about \$150,000,000,000, the record of government obligations appears to be somewhat more satisfactory than that of any other group of securities. If the indebtedness of Czarist Russia is included, the total debt in default is just under \$19,750,000,000, which is slightly more than 13 per cent of the total obligations of the world. Back interest would aggregate nearly \$10,000,000,000.

17a. For details concerning the policy of the United States government toward foreign loans, cf. "Diplomatic Protection of American Investments Abroad," Foreign Policy Association Information Service, Vol. III, No. 3, April 13, 1927, p. 38.

18. Cf. Appendix for details concerning this and similar organizations.

SUMMARY

From the foregoing discussion it will be seen that the most fruitful approach to the problem of eliminating or decreasing the number of defaults and repudiations on the part of governments lies not so much in a change in the fiscal organization of the debtor countries, as in creating a sense of responsibility in the creditor countries. Few if any of the factors contributing to the default of the majority of the loans listed were entirely within the control of the borrowers; while all but one of the causes enumerated were at least partially within the control of the creditor countries as such. The remaining one—the fall of commodity prices—seems to have been partly due to the mistaken loan policies followed by the lending countries. Moreover, there is general agreement on the assertion that sound financial policy dictates that foreign loans should be advanced only to national or local governments for productive purposes, and that such productive loans should be floated only when the financial and economic condition of the borrower is such as to offer reasonable assurance of repayment. Some of the concrete suggestions

which have been made for eliminating the difficulties listed above include:

1. The creation of a Council of American Holders of Foreign Bonds (similar to organizations existing in various European countries), to function independently of, but in cooperation with leading banking interests, which could bring about effective supervision of all foreign flotations.

2. Publication by a responsible organization—not interested in the sale of securities—of accurate and intelligible statistics regarding the economic and financial position of the borrowing country in the case of all foreign issues.

3. Cooperation between the American council and similar organizations in Europe, with a view to preventing the flotation in any market of a foreign loan on behalf of a government which has defaulted on loans raised or outstanding in other markets.

4. Agreement between the borrowing nation and its creditors to refer controversies to the League of Nations or the Permanent Court of International Justice, whose decisions would be considered final and binding.¹⁹

5. The adoption of a common investment policy which would assure as steady and uninterrupted a flow of credit as possible to responsible and solvent borrowers, with full regard to their capacity for repayment.

LOANS IN DEFAULT BY GOVERNMENTS, STATES AND CITIES^{†20}

<i>Issue</i>	<i>Original Amount</i>	<i>Amount Outstanding</i>	<i>Interest In Arrears</i>
ARGENTINA			
Province of Corrientes 6s, 1910-25 ¹	\$ 1,984,125	\$ 1,487,600	\$ 178,500
BOLIVIA²			
Bolivia 6s, 1917-40	2,400,000	1,431,000	85,850
Bolivia 8s, 1922-47	29,000,000	23,267,500	1,340,000
Bolivia 7s, 1927-58	14,000,000	13,590,000	951,500
Bolivia 7s, 1928-69	23,000,000	22,815,000	1,597,050
BRAZIL³			
Alagoas 5s, 1906-58 ⁴	1,500,000	1,500,000	1,200,000
Alagoas 5s, 1909-58	1,000,000	1,000,000	200,000
Amazonas 5s, 1906-57	16,800,000	16,047,300	8,826,000
Amazonas Funding 5s, 1915-25	4,100,000	4,011,820	2,607,000
Bahía 5s, 1888-1939 ⁵	1,600,000	1,303,800	65,200
Bahía 5s, 1904/05-55	5,311,800	4,874,600	243,500
Bahía 5s, 1910-59	9,000,000	8,339,300	416,900
Bahía 5s, 1913-63	5,000,000	4,879,900	244,500
Bahía Funding 5s, 1915	3,936,650	3,221,400	161,000
Bahía 6s, 1918-33	1,775,000	637,750	38,250
Bahía 7s, 1930-33	1,474,500	981,675	68,700
Bahía Funding 5s, 1928-33	1,692,500	1,678,600	83,500
City of Bahía 5s, 1905-40	5,000,000	4,688,000	2,812,000
City of Bahía 5s, 1912/13-63	8,000,000	7,981,500	4,788,500
City of Bahía 6s, 1914	7,605,000	7,605,000	.....
City of Bahía 5s, 1916-46	4,200,000	4,200,000	2,730,000
Belem 5s, 1905-55	5,000,000	4,605,200	2,302,500
Belem 5s, 1906-58	3,000,000	2,852,000	1,426,000
Belem 5s, 1912	3,711,500	3,711,500	1,855,750
Belem 6s, 1919-29	1,363,300	1,363,300	818,500
Brazil 4½s, 1883-1942	22,998,000	11,583,120	260,620
Brazil 4s, 1901-62*	83,096,600	51,807,950	.....
Brazil 5s, 1908-62*	20,000,000	19,458,500	.....

[†]Revised to January 1, 1932.

*Not included in totals as interest payments have not yet defaulted.

19. The Permanent Court of International Justice has handed down two judgments in cases involving disputes over the terms of international obligations. (Cf. Permanent Court of International Justice, *Collection of Judgments, Series A—Nos. 20-21*, Leyden, Sijthoff's, 1929.)

20. Part of the material and statistics contained in this report are taken from the study, *Foreign Bonds—An Autopsy*, by Dr. Max Winkler to be published shortly.

<i>Issue</i>	<i>Original Amount</i>	<i>Amount Outstanding</i>	<i>Interest In Arrears</i>
BRAZIL (Continued)			
Brazil 4s, 1911-72 (French issue)*	27,000,000	23,496,500	.....
Brazil 8s, 1921-41	50,000,000	31,352,500	1,254,100
Brazil 7s, 1922-52	25,000,000	17,503,000	612,605
Brazil 6½s, 1926-57*	60,000,000	56,108,000	.....
Brazil 6½s, 1927-57*	41,500,000	39,709,000	.....
Brazil 6½s, 1927-57 (Sterling issue)*	43,750,000	42,723,000	.....
Ceara 5s, 1910-48°	3,000,000	2,487,700	1,865,500
Ceara 8s, 1922-47	2,000,000	1,840,000	147,500
City of Manaus 5½s, 1906-36°	1,750,000	1,349,000	1,038,500
Manaos Improvement Ltd. 6s, 1916-46°	2,500,000	2,500,000	2,700,000
Manaos Improvement Ltd. Prior Lien 6s	188,500	188,500	113,000
Nichteroy (City of) 7s, 1928-68°	4,000,000	3,971,000	138,985
Pará 5s, 1907-45 ¹⁰	3,250,000	2,844,800	1,422,500
Pará 5s, 1915-56	5,106,600	5,106,600	2,553,500
Pelotas (City of) 5s, 1911-61	3,000,000	2,302,500	57,562
Pernambuco 5s, 1904-05 ¹⁸	5,000,000	2,946,000	73,650
Pernambuco 5s, 1909-47	7,500,000	5,277,500	131,838
Pernambuco 7s, 1927-47 ¹¹	6,000,000	5,384,000	187,540
City of Pernambuco 5s, 1910-60	2,000,000	1,443,200	72,150
Port of Pará 5½s, 1906-10	18,000,000	17,520,000	8,672,300
Port of Pará 5s, 1911/13	21,643,500	21,439,000	9,647,350
Porto Alegre (City of) 5s, 1909-44 ¹²	3,000,000	1,837,500	91,875
Porto Alegre (City of) 8s, 1921-61	3,500,000	3,440,000	275,200
Porto Alegre (City of) 7½s, 1926-66 ..	4,000,000	3,936,500	295,235
Porto Alegre (City of) 7s, 1928-68	2,250,000	2,223,000	155,610
Rio de Janeiro 5½s, 1927-49 ¹³	9,632,500	8,996,500	247,403
Rio de Janeiro 7s, 1927-64	10,500,000	9,317,500	326,113
Rio de Janeiro 6½s, 1929-59	6,000,000	6,000,000	195,000
Rio de Janeiro (City of) 5s, 1904-54 ¹⁴ ..	20,000,000	17,329,700	433,242
Rio de Janeiro (City of) 4½s, 1912-52 ..	12,500,000	9,143,200	165,722
Rio de Janeiro (City of) 8s, 1921-46	12,000,000	8,295,000	331,800
Rio de Janeiro (City of) 6½s, 1928-53 ..	30,000,000	30,000,000	975,000
Rio de Janeiro (City of) 6s, 1928-33	1,770,000	1,770,000	53,100
Rio Grande do Norte 5s, 1910	1,750,000	1,406,300	843,750
Rio Grande do Sul 8s, 1921-46 ¹⁵	10,000,000	6,300,000	252,000
Rio Grande do Sul 7s, 1926-66	10,000,000	9,778,000	342,230
Rio Grande do Sul 6s, 1928-68	23,000,000	23,000,000	690,000
Rio Grande do Sul Consolidated Mu- nicipals 7s, 1927-67	4,000,000	3,936,500	137,778
Santa Catharina 8s, 1922-47	5,000,000	4,704,800	742,500
São Paulo (State of) 5s, 1905-44 ¹⁶	19,000,000	11,485,500	287,138
São Paulo (State of) 5s, 1907-57	10,080,000	8,325,000	208,125
São Paulo (State of) 6s, 1928-68	17,500,000	17,322,000	419,660
São Paulo (State of) 6s, 1928-68	15,000,000	14,805,000	444,150
São Paulo (State of) 8s, 1925-50	15,000,000	15,000,000*
São Paulo (City of) 6s, 1908-43 ¹⁷	3,750,000	2,138,500	64,155
São Paulo (City of) 6s, 1919-43	8,500,000	5,870,000	176,100
São Paulo (City of) 6½s, 1927-57	5,900,000	5,643,500	183,415
São Paulo (City of) 8s, 1922-52	4,000,000	3,312,500	132,500
Santos 7s, 1927-57 ¹⁸	11,300,000	11,300,000	386,803
CHILE¹⁹			
City of Antofagasta 5s, 1913	1,000,000	471,500	11,788
Chile 4½s, 1885	4,044,500	469,500	10,564
Chile 4½s, 1886	30,050,000	6,502,000	146,295
Chile 4½s, 1887	5,801,000	1,212,500	27,281
Chile 4½s, 1889-1941	7,731,950	3,594,050	69,866
Chile 5s, 1892	9,000,000	3,628,500	90,712
Chile 4½s, 1893	3,150,000	1,169,000	26,302
Chile 4½s, 1895	10,000,000	4,480,500	99,691
Chile 5s, 1896	20,000,000	10,246,000	256,175
Chile Internal Gold 5s, 1905	2,372,500	1,270,950	31,774
Chile 5s, 1905	6,750,000	3,670,000	91,750
Chile 4½s, 1906	18,500,000	987,100	22,211
Chile 5s, 1909	15,000,000	11,778,500	294,463
Chile 5s, 1910	13,000,000	7,960,500	199,013
Chile 5s, 1911	49,525,000	32,081,500	802,037
Chile 4½s, 1911	1,375,000	657,100	14,785
Chile 7½s, 1922	8,287,500	7,729,000	251,338
Chile 7s, 1922-42	18,000,000	15,634,000	547,190
Chile Internal 8s, 1924-26	456,000	223,500	8,940
Chile Internal 8s, 1927	552,000	187,200	7,488
Chile Ry. Refunding 6s, 1928	45,912,000	44,692,000	1,340,760
Chile Internal 7s, 1928	3,000,000	2,953,500	103,355
Chile Internal 7s, 1928	6,000,000	5,939,000	207,865
Chile 6s, 1929-61	5,000,000	5,000,000	150,000
Chile 6s, 1930-62	12,000,000	12,000,000	360,000
Chile Internal 7s, 1930-60	2,640,000	2,640,000	92,400

*Not included in totals as interest payments have not yet been defaulted.

<i>Issue</i>	<i>Original Amount</i>	<i>Amount Outstanding</i>	<i>Interest In Arrears</i>
CHILE (Continued)			
Chile 6s, 1930-63	25,000,000	25,000,000	750,000
Chile 8s, 1922-50	1,200,000	1,139,400	45,000
Chile 6s, 1926-60	13,975,000	13,804,500	414,150
Chile 6s, 1926-60	42,500,000	41,013,500	1,230,400
Chile 6s, 1927-61	27,500,000	26,708,000	751,250
Chile 6s, 1928-61	10,000,000	9,898,500	296,500
Chile 6s, 1928-61	16,000,000	15,754,000	472,650
Chile 6s, 1929-62	10,000,000	9,898,000	297,850
Chile 6s, 1929-62	10,000,000	9,950,000	298,500
Chilean Consol. Municipals 7s, 1929-60....	15,000,000	14,925,000	522,500
City of Concepción 5½s, 1928	750,000	727,000	19,993
Coquimbo Ry. 4½s, 1899	1,300,400	606,100	13,137
Mortgage Bank 6½s, 1925	20,000,000	18,882,000	613,665
Mortgage Bank 6¾s, 1926	20,000,000	19,039,500	642,583
Mortgage Bank 6s, 1926	10,000,000	10,000,000	300,000
Mortgage Bank 6s, 1928	20,000,000	19,581,500	587,445
Mortgage Bank 6s, 1929	20,000,000	19,797,000	593,910
Mortgage Bank Internal 8s	83,927,250	83,927,250	3,357,090
Mortgage Bank External 5s	950,000	950,000	23,750
City of Santiago 7s, 1928	4,000,000	3,853,000	134,855
City of Santiago 6s, 1929	5,000,000	5,000,000	150,000
City of Santiago 7s, 1930	2,200,000	2,200,000	77,000
South Longitudinal Ry. 1912-13-14	19,286,950	10,917,200	.....
Transandine Ry. 8s, 1922	4,125,000	3,686,300	147,452
Transandine Ry. 7½s, 1923	2,710,000	2,552,500	95,718
City of Valparaiso 5½s, 1912	1,250,000	569,000	15,648
City of Valparaiso 6s, 1915	480,000	280,000	8,400
Valparaiso—Vina del Mar (Avenida Es- pana) 8s, 1920-22	720,000	698,500	27,940
City of Vina del Mar 5s, 1913	1,000,000	564,100	14,103
CHINA²⁰			
Austrian Loan 8s, 1912/15	6,165,000	6,165,000	7,395,000
Austrian Loan 6s, 1914	23,750,000	23,750,000	21,375,000
Canton Kowloon Ry. 5s, 1907-37	5,700,000	3,847,500	1,155,000
China Internal issues (various) .....	.....	.....	22,550,000
Federal Wireless 8s, 1921-31	2,308,750	2,308,750	1,150,000
Federal Wireless Supplemental 8s, 1921- 41	6,500,000	6,500,000	5,200,000
French 5s, 1914-64	20,000,000	20,000,000	9,000,000
Honan Ry. 5s, 1905-35	4,000,000	1,857,000	445,000
Hukuang Ry. 5s, 1911-51	30,000,000	26,323,900	5,595,000
Improvement and Development of Tel. 9s, 1920-33	7,500,000	7,500,000	6,750,000
Lung-Tsing-U-Hai Ry. 5s, 1913-57	20,000,000	20,000,000	5,000,000
Lung-Tsing-U-Hai Ry. 8s, 1922-53	10,240,000	10,240,000	4,075,000
Lung-Tsing-U-Hai Ry. 8s, 1923-33	27,588,600	27,588,600	1,650,000
Lung-Tsing-U-Hai Ry. 8s, 1925-35	4,600,000	4,600,000	27,500
Marconi Wireless Advance 8s, 1918-22 ..	1,000,000	1,000,000	720,000
Marconi Wireless 8s, 1919-28	3,000,000	3,000,000	1,500,000
Mitsui Wireless Agreement 8s, 1919	2,681,335	2,681,335	1,340,000
National Wireless Telegraph 8s, 1919	500,000	500,000	400,000
Nishihara Loans			
Miscellaneous issues	25,000,000	25,000,000	7,500,000
Mine and Forestry 7½s, 1918-28	15,000,000	15,000,000	5,625,000
War Participation 7s, 1918	10,000,000	10,000,000	3,500,000
Bank of Communications 7½s, 1918	10,000,000	10,000,000	3,750,000
Pekin-Hankow Ry. 5s, 1911-36	5,000,000	2,690,000	1,175,000
Pekin-Mukden Ry. 6s, 1914-34	1,875,000	1,875,000	465,000
Refunding 8s, 1922-28	19,804,350	19,804,350	9,500,000
Seven per cent Loan of 1917/18-20/21....	15,000,000	15,000,000	10,500,000
Shanghai-Taku Cable 5s, 1900-30	1,050,000	1,050,000	525,000
Telegraph Charges Advance 5s, 1911-30 ..	2,500,000	2,500,000	1,250,000
Telegraph 8s, 1918-23	10,000,000	10,000,000	8,000,000
Taku-Chefoo Cable 5s, 1900-30	240,000	240,000	120,000
Telephone Extension 8s, 1918-21	5,000,000	5,000,000	4,000,000
Tientsin-Pukow Ry. 5s, 1908-38	25,000,000	12,500,000	2,500,000
Tientsin-Pukow Ry. Supplementary Loan 5s, 1910-40	15,000,000	9,000,000	2,700,000
Treasury Notes 6s, 1916-19	5,500,000	5,500,000	3,960,000
Treasury Notes 6s, 1919-21	5,500,000	5,500,000	3,300,000
Vickers Treasury 8s, 1919-29	9,016,000	9,016,000	6,500,000
COLOMBIA²¹			
Medellín 6½s, 1928-54	9,000,000	8,527,000	277,125
Medellín 7s, 1926-51	3,000,000	2,703,000	84,605
ECUADOR²²			
Central Railway 6s, 1911-58	1,000,000	637,500	726,750
Central Railway Income 6s, 1916-50	212,500	212,500	191,250
Condores 4s, 1904	389,500	356,500	142,500

<i>Issue</i>	<i>Original Amount</i>	<i>Amount Outstanding</i>	<i>Interest In Arrears</i>
ECUADOR (Continued)			
Ecuador Ry. 5s, 1909/11-73	1,400,000	1,400,000	1,220,000
Ecuador Ry. 6s, 1909-46	700,000	700,000	776,000
Guayaquil & Quito 5s, 1897	12,282,000	10,726,000	9,117,500
Salt 4s, 1908	1,070,050	459,900	36,800
GUATEMALA²⁵			
International Railways of Central Amer- ica (Zacapa-Salvador Extension) ....	.....	.....	169,500
Los Altos, Maintenance Contract .....	.....	.....	196,800
HUNGARY^{23a*}			
Consolidated Municipal 7½s, 1925-45	10,000,000	8,676,000	.....
Consolidated Municipal 7s, 1926-46	6,000,000	5,548,000	.....
Counties of Hungary £ 6s, 1926-46	5,000,000	4,616,500	.....
Counties of Hungary £ 7½s, 1926-46	6,250,000	5,831,000	.....
Budapest 6s, 1927-62	20,000,000	19,336,000	.....
Discount & Exchange Bank 7s, 1928-63	3,400,000	3,337,000	.....
JUGOSLAVIA²⁴			
Montenegro 5s, 1909	1,250,000	1,003,500	75,250
LATVIA			
City of Riga 4½s, 1914 ²⁶	6,409,200	6,409,200	4,903,000
Wolmar Railway 4½s, 1910 ²⁶	899,400	893,800	402,500
MEXICO²⁷			
Aguascalientes 5s, 1910	650,000	650,000	585,000
Chihuahua 5s, 1900	300,000	299,040	254,150
Coahuila 6s, 1900	752,000	752,000	767,050
Córdoba (City of) 6s	500,000	413,300	421,550
Durango 5s, 1907/10	1,700,000	1,700,000	1,447,000
Interoceanic Ry. 4s, 1950	5,750,000	5,750,000	3,910,000
Interoceanic Ry. 4½s, 1950	6,500,000	6,500,000	4,972,500
Jalisco 6s, 1898/1900	2,500,000	2,500,000	2,550,000
Jalisco Silver 6s	500,000	418,600	426,950
Mexican 5s, 1899-1945	113,500,000	49,786,300	42,318,350
Mexican 4s, 1904	40,000,000	37,037,000	25,165,150
Mexican 4s, 1910	55,500,000	52,818,900	35,916,850
Mexican 6s, 1913	30,000,000	30,000,000	30,600,000
Mexican 6s, 1913, Ser. "B"	59,707,500	59,707,500	64,484,100
Mexican 6s, 1913, Ser. "C"	15,125,000	15,125,000	16,335,000
City of Mexico 5s, 1899	12,000,000	6,927,500	5,888,350
Mexican Central Ry. 5s, 1901	6,597,000	1,374,000	1,030,500
Mexican Central Ry. Equip. 5s	2,342,000	792,000	673,200
Mexican Eastern Ry. 5s, 1984	2,000,000	2,000,000	1,700,000
Mexican Internal 5s, 1894	48,307,550	46,450,000	39,482,500
Mexican Internal 3s, 1886	24,238,500	21,191,975	10,807,900
Mexican Int'l R. R. 4½s, 1897	6,000,000	6,000,000	3,519,000
Mexican Int'l R. R. 4s, 1897	4,499,000	4,499,000	3,059,300
Mexican Irrigation 4½s, 1908	25,000,000	25,000,000	19,125,000
Mexican National Packing 1st Mtge. 6s, 1913	3,000,000	3,000,000	3,060,000
Mexican National Packing 2nd Mtge. 6s, 1913	1,500,000	1,500,000	1,620,000
Mexican South Ry. 4s, 1908	861,318	861,318	585,500
Morelos 6s	100,000	90,700	91,500
National Railways 4s, 1907	72,613,116	50,738,575	34,434,150
National Railways Prior Lien 4½s, 1907	84,786,115	84,786,115	57,242,750
National Railways 6s, 1913-14	5,529,132	5,529,132	5,639,650
National Railways 6s, 1913-14	26,730,000	26,730,000	27,264,500
National R. R. Co. 4½s, 1902	23,000,000	23,000,000	16,425,200
National R. R. Co. 4s, 1902	27,289,000	24,740,000	15,144,000
Oaxaca (City) 5s	900,000	900,000	765,000
Pan American R. R. 5s, 1903	2,400,000	2,003,000	1,502,250
Pan American R. R. 5s, 1903	1,484,000	1,484,000	1,113,000
Parral (City) 6s	150,000	149,520	152,500
Saltillo (City) 6s	250,000	234,300	238,950
Saragossa (City) 5s	1,750,000	1,744,400	1,482,750
San Luis Potosi 6s, 1889	1,000,000	936,500	955,250
Tehuantepec Nat'l Ry. 5s, 1902-04-05	10,000,000	9,776,500	5,377,050
Tehuantepec Nat'l Ry. 4½s, 1905	2,000,000	1,927,700	1,474,650
Texas Mexican Ry. 7s, 1910	960,000	960,000	1,142,500
Texas Mexican Ry. 6s	1,380,000	1,380,000	1,407,500
Vera Cruz & Pacific R. R. 4½s, 1904	7,000,000	7,000,000	4,725,000
PERU²⁸			
Callao 7½s, 1927-44	1,500,000	1,359,500	51,000
Lima 5s, 1911-65	3,000,000	2,513,500	125,675
Lima 6½s, 1928-58	3,000,000	2,926,000	95,100
Peru 7s, 1918	9,021,068	8,894,760	311,300
Peru 7½s, 1922-48	6,250,000	5,571,000	208,900
Peru 8s, 1922-44	1,400,000	1,216,600	48,650

*Not included in totals as all obligations have been met to and including January 1, 1932.

<i>Issue</i>	<i>Original Amount</i>	<i>Amount Outstanding</i>	<i>Interest In Arrears</i>
PERU (Continued)			
Peru 7s, 1927-59	15,000,000	14,447,500	505,650
Peru 6s, 1927-60	50,000,000	48,656,000	1,459,650
Peru 6s, 1928-61	25,000,000	24,492,000	734,750
Peru 6s, 1928-61	10,000,000	9,898,500	246,950
Peru 8s, 1929	4,200,000	4,200,000	168,000
RUSSIA²⁰			
Pre-war debt		4,623,849,300	2,358,100,000
External war loans		75,000,000	46,000,000
Advances from Allies		3,854,644,750	2,129,000,000
Internal war loans		8,500,000,000	4,335,000,000
TURKEY²⁰			
Bagdad Ry. 4s, 1904, Ser. I		6,362,950	254,500
Bagdad Ry. 4s, 1908, Ser. II		12,837,500	513,500
Bagdad Ry. 4s, 1908, Ser. III		14,148,500	565,950
Customs Lien 4s, 1911		16,984,350	679,350
Customs Lien 4s, 1902		22,026,500	881,060
Docks, Arsenals and Naval Const. Loan		4,392,700	175,700
Fisheries 4s, 1913		6,056,650	242,250
Hodeaidah-Sanaa Ry. 4s, 1909		2,597,600	113,900
Koniah Irrigation Loan		2,762,450	110,500
Imperial Ottoman 4s, 1909		18,370,000	734,800
Lottery 3s, 1870-72		25,806,950	774,200
Oriental Railway 4s, 1894		4,357,260	174,300
Osmânie 4s, 1890		3,960,785	158,400
Ottoman Bank 4s, 1908		12,572,300	502,900
Soma Panderma 4s, 1910		4,673,200	186,900
Tedjhzizat-Askerie 4s, 1905		6,352,100	254,050
Tobacco Priority 4s, 1893		1,087,630	43,400
Tobacco Regie Advance		797,300	31,900
Treasury 5s, 1911		2,549,350	101,950
Treasury Loan I. O. B. of 1912		1,462,500	58,500
Treasury Loan of 1913		889,150	35,550
Treasury Loan		8,855,700	344,200
Turkey 5s, 1896		6,349,900	317,500
Turkey 4s, 1904		7,197,500	287,950
Turkey 4s, 1904/05		13,814,300	552,550
Turkey 5s, 1914		74,052,675	3,702,600
Unified 4s, 1903		90,833,950	3,633,350
UNITED STATES²¹			
Alabama Ry. Loans		4,700,000	15,275,000
Arkansas Ry. Loans		7,900,000	21,725,000
Confederate States 7% cotton Loan		12,094,000	55,874,250
Florida Bank and Ry. Loans		7,900,000	27,590,000
Georgia Ry. Loans		13,580,000	39,382,000
Louisiana Ry. and Settlement Loans		22,000,000	37,620,000
Mississippi Bank Loans		7,000,000	36,420,000
North Carolina Ry. and Tax Loans		12,800,000	39,040,000
South Carolina		7,500,000	24,255,000
URUGUAY			
Montevideo (City of) 6s (now 5s) of 1899**	6,882,750	3,554,250	.....
Montevideo (City of) 7s, 1922-52	6,000,000	5,649,000	197,715
Montevideo (City of) 6½s, 1926-59** ..	5,171,000	4,926,000	.....

RECAPITULATION

<i>Issue</i>	<i>Original Amount</i>	<i>Amount Outstanding</i>	<i>Interest In Arrears</i>
Argentina	\$ 1,984,125	\$ 1,487,600	\$ 178,500
Bolivia	68,400,000	61,103,500	3,974,400
Brazil	552,929,350	469,136,615	71,580,104
Chile	603,144,800	559,099,250	17,165,532
China	356,019,035	327,537,435	170,197,500
Colombia	12,000,000	11,230,000	361,730
Ecuador	17,054,050	14,492,400	12,210,800
Guatemala .....	.....	.....	366,300
Jugoslavia	1,250,000	1,003,500	75,250
Latvia	7,308,600	7,303,000	5,305,500
Mexico	738,651,231	629,163,875	497,283,050
Peru	128,371,068	124,175,360	3,955,625
Turkey	413,500,000*	372,151,850	15,431,710
United States	95,474,000	95,474,000	297,181,250
Uruguay	6,000,000	5,649,000	197,715
TOTAL	\$ 3,002,086,259*	\$ 2,679,007,385	\$ 1,095,464,966
Russia	18,758,743,500*	17,053,494,050	8,868,100,000
Grand Total....	\$ 21,760,829,759	\$ 19,732,501,435	\$ 9,963,564,966

*Partly estimated.

**Not included in totals as interest payments have not yet defaulted.

NOTES ON CERTAIN LOANS

Note 1. The bonds for the Province of Corrientes were authorized for the purpose of extending the Corrientes Railway and organizing agricultural colonies. They were defaulted in August 1916 with respect to interest, sinking fund payments having ceased in 1915. No payments have been met since August 1921 when the February 1919 interest was disbursed.

In February 1928 the Supreme Court at Buenos Aires ordered the Provincial Government to pay bondholders £404,627 for interest and sinking fund in arrears, and it was later announced that the Province had deposited £7,208 to apply on this payment.

Note 2. An announcement made in February 1931 declared that a final settlement of the Bolivian debt problem would be postponed until after the provisional Military Government went out of office and the new administration came in on March 10. No further action has been reported to date.

Note 3. In connection with the partial default of the Brazilian government, the following official statement was issued on October 17, 1931 by Brazil's New York representative:

"In view of the impossibility of acquiring foreign exchange for the transfer of funds to the markets where the coupons of the external debt are payable, the Brazilian Federal Government, after placing before their bankers all the facts regarding the position of the country, are reluctantly obliged to authorize them to communicate to the holders of Brazilian bonds that they are only in a position to pay in full in cash, on the dates stipulated in the contracts, the interest and sinking fund on the 5 per cent funding loan of 1898 and on the 5 per cent funding loan of 1914. Service in full of Brazil 1922 7½ per cent coffee security bonds issued in London and New York, is already provided for and payments will also be made in cash.*

"The interest on all other loans will be paid on their respective due dates during a period of three years in special scrip, bearing interest at 5 per cent per annum and divided into two series; the first series, redeemable in 20 years, will be in respect of the bonds issued against the following loans: Brazil 1903—5 per cent sterling bonds; Brazil 1909—5 per cent French franc bonds; Brazil 1921—8 per cent gold dollar bonds; Brazil 1922—7 per cent gold dollar bonds; Brazil 1926—6½ per cent gold dollar bonds. Brazil 1927—6½ per cent sterling and gold dollar bonds.

"The second series, redeemable in 40 years, will cover all other existing Brazilian Federal Government foreign loans.

"The Brazilian Federal Government undertakes to review the situation at the end of the first and second years with a view to extending cash payments should circumstances permit. The sums in milreis at the rate of exchange last fixed for stabilization, namely, 6 pence, corresponding to the interest not being remitted, will be deposited in an approved bank in the city of Rio de Janeiro and applied in the purchase of bills of exchange, provided that the market can supply them. Such remittances would be sent to the Government's bankers and applied to the redemption of the new scrip, either by purchase if below par or by means of drawing if at par. The scrip of the series redeemable in 20 years will be dealt with first. Should the market not supply the necessary foreign exchange, the Government will acquire bonds of the internal debt, which will be held in trust until such time as exchange can be obtained.

"The Brazilian Federal Government will pay the interest and the sinking fund on the new scrip in cash on their due dates. The sums in milreis earmarked for the payment of the suspended sinking fund, which are being deposited and which will continue to be deposited also at exchange of 6 pence, will be destroyed as soon as possible and deflation will continue so long as market conditions permit. The Brazilian Federal Government have authorized their bankers to take the necessary steps for the execution of this program."

It will be noted that the above statement contains no reference to the status of the external loans of

the various Brazilian states. It is, however, within reason to assume that payment will be withheld by those which have not as yet defaulted or suspended payments in part.

Note 4. In 1909 a syndicate of British and French bankers placed an issue on behalf of the State of Alagoas aggregating £500,000. Of the total, £200,000 were sold in England at 85, bonds bearing interest at the rate of 5 per cent per annum, and subject to redemption by a cumulative sinking fund of 5½ per cent per annum, calculated to retire the whole issue by July 1, 1958. The bonds were sold for the purpose of consolidating existing state obligations and for the purpose of providing funds for effecting improvements. The loan is specifically secured by a first lien on the export duties, the state of Alagoas undertaking not to contract any other loans which will rank prior to or *pari passu* with these bonds.

The issue has been in complete default since 1928 and no payments appear to have been made for interest due on account of 1921. The sinking fund has been in arrears since 1921.

Note 5. The first external loan of Bahia was contracted in 1888, and bore interest at the rate of 5 per cent per annum. The loan was authorized at 20,000,000 francs, of which bonds for 8,000,000 francs were issued by a syndicate of French banks headed by the *Banque de Paris et des Pays Bas*. Bonds are secured by a first charge on the general revenues of the State. Default occurred in December 1917. In 1919 an agreement was reached whereby coupons from December 1917 to June 1919 were paid 40 per cent in cash and the remainder in 6 per cent Treasury Bonds. Coupons due December 1919 and June 1920 were likewise dealt with, 50 per cent in cash and the balance in Treasury Bonds. Payments were suspended entirely in January 1922, and in December of the following year an agreement was reached between the state and the Ethelburga Syndicate, Ltd., of London and the *Association Nationale des Porteurs Français de Valeurs Mobilières*.

According to this agreement, the government of Bahia undertook for a period of four years, beginning October 1923, to deposit in a bank in Bahia the sum of 500 contos per month, of which one-fourth shall be allocated for payment of interest on the French loans of 1888 and 1910, and three-fourths for payment of interest on the British loans of 1904, 1913, 1915 and 1918. These sums were to be applied to each loan *pro rata* to the nominal amount outstanding.

It was stipulated that coupons should be paid from time to time when the amount in the hands of the respective bankers was sufficient for the purpose. The government of Bahia agreed to issue funding bonds to the holders of any matured coupons remaining unpaid on January 1, 1928.

All payments in respect of redemption up to January 1, 1928 will be deferred. As from January 1, 1928, the government of Bahia has undertaken to resume on the due dates the normal service of the external loans. The payments of the principal of the Treasury Bonds falling due in 1923, 1924 and 1925 will be extended for 5 years, interest for such period accruing at the rate provided by the bonds in question.

A supplementary agreement with the Ethelburga Syndicate in December 1927 provided that:

a. Matured coupons unpaid on January 1, 1928 are to be exchanged for bonds of a new 5 per cent Funding Loan at par;

b. Payment in cash of all coupons is to be resumed after January 1, 1928;

c. Treasury Bills of 1918 are to be repaid in cash by drawings at par in 12 semi-annual instalments;

d. Sinking fund is to be resumed as soon as Treasury Bills have been repaid.

*Reference to this issue is not quite clear. As of December 31, 1923, it was officially reported that the entire stock of coffee hypothecated as security for the loan had been sold and the proceeds turned over to the London bankers (Baring Brothers, N. M. Rothschild and Sons, and J. Henry Schröder and Company), with whom they are now on deposit. The amount of the bonds is not included in the total of the Brazilian government debt. The bonds would, of course, have been paid off were it not for the fact that the issue is callable as a whole on and after October 1, 1932 at 102 upon six months' previous notice.

All obligations under the above agreement were duly met and full interest payments in cash resumed as from January 1, 1928. In 1931 the entire indebtedness of the state went into default once again.

Note 6. Ceara is one of the smaller northern Atlantic states of Brazil. By September 30, 1928, interest and sinking fund in arrears totalled \$278,443 which the State undertook to liquidate by semi-annual instalments of \$40,000 beginning April 1, 1929, sinking fund to be reduced to \$20,000 until arrears are paid off in 1932 when the original amortization of \$40,000 per annum was to be restored. At present, however, the bonds are in complete default.

Note 7. The 5½ per cent loan of the city of Manaus for £150,000 was issued in London in 1906, and was secured by a first lien on the revenue derived from the operation of the city-owned market and slaughterhouse. No payments have been made since April 1918 when the November 1916 coupon was taken care of. The sinking fund has also been in default.

Note 8. The Manaus Improvements Limited has outstanding two bond issues, of which £500,000 are represented by 6 per cent debentures, and £37,700 by 6 per cent prior lien registered bonds.

In accordance with an agreement made between the company and the state of Amazonas in 1916, the state took over the company's concession and assets in consideration of the payment of 7,500,000 milreis in 5 per cent internal bonds, which were to be redeemed by a sinking fund of 1 per cent per annum, commencing in 1921. In addition, the state undertook to make up any deficiency to meet the interest and sinking fund payments on the outstanding bonds of the company. In spite of these arrangements, the debentures have been in default since November 1913, while the prior lien bonds have been in default since 1921.

Under date of November 4, 1927, a contract was signed with the Brazilian Federal Treasury whereby Brazil would endorse a loan of 40,000 contos to be obtained for the state of Amazonas by the Bank of Brazil, the proceeds to be used to pay off the state's external and internal indebtedness.

Note 9. The bonds of the city of Nictheroy, capital of the state, with a population of about 110,000, were sold in London. Principal and interest are payable in pounds or, at the option of the holders, in United States dollars at the fixed rate of \$4.86 to the pound. Bonds are secured on twenty different tax revenues of the city and are in addition guaranteed by the state of Rio de Janeiro.

It is of interest to point out that the city has agreed to pay 300,000 milreis a month during 1932 to be used to pay interest on bonds in sterling at current rates of exchange.

Note 10. Pará, the third largest state in Brazil, has been in complete default since 1921, although on the 5 per cent loan of 1901-1902 a coupon was paid in January 1930 on account of July 1924 interest. Bonds are held in England, Holland, Portugal and Brazil, and are all specifically secured by export taxes, revenues of state railways and water works, alcohol and tobacco taxes and various other revenues.

Pará, the capital and chief city of the state—officially known as Belem, has also been in default for more than a decade. The city's bonds are held largely in England, France and Brazil.

The bonds of the Port of Pará Company, a marine enterprise, have been in default since 1922 as a result of non-payment of the guarantee by the Brazilian government. Although incorporated under the laws of the State of Maine, U. S. A., relatively few of the company's securities are held by American investors. The bulk of the various issues is held chiefly in England, Belgium, France, Holland and Switzerland.

Note 11. In May 1931 the city of Pernambuco, the capital and principal city in the state of the same name and the third largest city in Brazil, defaulted with respect to interest. The bonds affected, the 5s of 1910, were sold largely in England, Belgium and Germany and are unconditionally guaranteed by the state of Pernambuco.

Under date of September 1, 1931, White, Weld & Company, paying agents for the state of Pernambuco 7 per cent loan of 1927, issued the following statement:

"As paying agent for the above Loan, we regret to advise that funds for the payment of the interest due September 1, 1931, on these Bonds have not been received. Accordingly we are obliged to refuse payment of the coupons due on that date.

"In response to many demands by the paying agent for the remittance of the funds, we received this morning a cable from the Secretary of Finance of the State of Pernambuco stating that a decrease in revenue compels the state to delay payment until conditions become normal."

Default also occurred in August 1931 in the bonds of Brazil's capital and second largest city, Rio de Janeiro. A bond issue of \$30,000,000 was floated in the American market in 1928 at 97 and interest.

The default of the state of Rio Grande do Norte is to a certain extent technical in character. A 5 per cent loan was issued in France in 1910 to the amount of 8,750,000 francs, of which 7,031,500 francs remain outstanding. Bonds were specifically secured by a one per cent tax on the exportation of salt, a 2 per cent sewer tax and by a lien on the navigation dues. Payments are scheduled to be made on a gold basis which the state has so far refused to carry out, in spite of a court decision rendered in February 1930 in favor of the bondholders.

Note 12. The capital and chief city of the state, Porto Alegre, has a population of 276,000. Three of the city's external loans have been sold in the American market, bearing interest at the rate of 7 to 8 per cent per annum. One loan, a 5 per cent, was sold in London and Amsterdam prior to the war to the amount of £600,000 at 93½.

Note 13. The state of Rio de Janeiro, which is entirely distinct from the Federal District of the same name, has outstanding three external loans, all sold within the past five years. The first was a 5½ per cent issue contracted for the purpose of retiring a 5 per cent loan and enabling the state to contract a 7 per cent loan. The issue was offered to the amount of £1,926,500, in conversion, par for par, of the 5s of 1912.

Of the 7s of 1927, authorized to the amount of £2,100,000, only £1,863,500 were issued at 97. The loan was specifically secured by a lien on a new gold tax on the export of sugar and coffee, subject to the 5½s of 1927. Two years later, the state contracted a loan in the American market. Bonds were secured on various taxes and duties and were sold at 91½ and interest.

Note 14. Of the five external loans of the city of Rio de Janeiro, two have been placed in London, the 5s of 1904 of £4,000,000, and the 4½s of 1912, issued to the amount of £2,500,000 of an authorized amount of £10,000,000. The former is payable in pounds sterling only, while the latter is payable also in Swiss francs and guilders at fixed rates of exchange.

Note 15. On October 20, 1931, the fiscal agents of Rio Grande do Sul 6 per cent loan of 1928 announced the receipt of a cable from the Secretary of Finance of the state to the effect that, being unable to purchase dollar exchange, the state could not remit on October 25 funds to pay the coupon maturing December 1. The cable renewed the suggestion that deposit be made in Brazilian currency at 8.5 milreis to the dollar, for conversion into dollars as soon as the exchange situation allowed. The same arrangement will doubtless be made in respect of other loans sold abroad on behalf of Rio

Grande do Sul or the various municipalities in the state for which the latter has assumed responsibilities.

Note 16. São Paulo, often referred to as the Empire State of Brazil, embraces an area as large as New York and the New England States combined. The wealth of the State is estimated at \$4,000,000,000 whereas the total indebtedness amounts to about \$350,000,000.

Note 17. The city of São Paulo is the third largest city in all South America and the second in Brazil. The funded debt is relatively small, the latest figures placing the total at not much in excess of \$25,000,000. Until recently the city could boast of a perfect fiscal record.

Note 18. Santos, the seaport of São Paulo, is the greatest coffee shipping center in the world. It handles about half of Brazil's exports and 30 per cent of its imports. The debt comprises a loan contracted in London in 1927 for the purpose of redeeming existing issues and for other purposes. Bonds are secured by a general charge on the municipal assets and revenues.

Note 19. The following statement was issued by the Chilean government on July 16, 1931, in explanation of the suspension of debt payments:

"Chile, like many other countries, has been severely affected by the world crisis. Due to the diminution of its exports, the trade balance is unfavorable, and the Banco Central has seen its reserves and gold deposits abroad gradually diminish. Under the circumstances the situation of the Banco Central would be gravely affected if the Government should have recourse to this institution to obtain the drafts necessary for the purpose of continuing to pay the service of the external debt in foreign money, drafts which at this time are not found on the market in sufficient quantity, due to the diminution of exports. The Government does not ask the suspension of those payments which it recognizes as due; but it has resolved that, in its opinion, it will protect its monetary situation and the holders of its bonds abroad, paying the service of its consolidated debt during this month by depositing the amount in legal money in a special account in the Banco Central of Chile."

The interest and amortization payments due to be made to bondholders on August 1 and affected by this decision totaled about \$962,500 in New York, and £82,000 in London. The total annual requirement for interest and amortization payments on the external funded public debt is approximately \$40,567,000. A loan of \$10,000,000 to the Mortgage Bank guaranteed by the government fell due on December 31. Thus, the total amount to be remitted for payment to bondholders abroad during the next twelve months for which foreign exchange will be required is \$50,000,000. A floating debt that totalled approximately \$60,000,000 on April 1, 1931, owed in New York and London, is another element in the government's problem.

The reversal of the trade balance has been of particular significance. In 1927-1929 the average annual excess of exports was more than \$80,000,000, but in 1930 exports declined \$118,000,000 under 1929, and as imports were reduced only \$28,000,000, the trade balance was converted into an import excess of \$8,500,000. The difficulty of procuring foreign exchange under such conditions was partially met by obtaining loans, both for short and long terms, which created credit balances abroad; at the same time gold reserves were drawn upon, and the item of gold and sight deposits abroad of the Central Bank of Chile showed a reduction of nearly \$20,000,000, or more than 33 1/3 per cent, between January 31, 1930 and January 31, 1931.

Note 20. With the exception of loans secured on the maritime customs, payment of interest and sinking fund on all Chinese obligations has been made irregularly and is in arrears.

Note 21. As a result of the embargo on gold shipments, Medellín, the capital of the Department of Antioquia, permitted the external loans of the city to default on December 1, even though it was

stated that the municipality had the required dollar balances. The 6½s were sold to retire an outstanding 8 per cent issue, to redeem the entire outstanding funded internal debt, for additions, improvements and extensions to the municipal hydro-electric and tramway properties, and for sewer and paving purposes. The proceeds from the sale of the 7s of 1927 were to be applied to the development and extension of the city-owned public utilities which are pledged as security for the loan.

Note 22. After a series of defaults and resump-tions of payments, Ecuador defaulted in August 1914 and continued in complete default until July 1918. In the following month, payment of coupons in arrears was begun, but payments have been small and have been made irregularly.

In 1929 remittances abroad for service on certain of its external loans were discontinued, but were partially resumed in 1930. The bonds affected include the Condore 4s, the 4 per cent salt bonds, and the Guayaquil and Quito First Mortgage 5 per cent bonds. In August 1930 the Council of Foreign Bondholders intervened, inviting deposits of the above issues, issuing deposit certificates therefor, properly negotiable. Discontinuance of debt service was said officially to be due to the fact that the government was anxious to accelerate a debt settlement rather than to a complete lack of funds. The Council lodged a vigorous protest with the Ecuadorian government, which in January 1930 replied that a decree by the Assembly prevented remittance of the debt service funds.

Note 23. Guatemala's default* involves two interest payments of \$84,750 each on the International Railways of Central America and the Zacapa-Salvador Extension, which were overdue as of March 1, 1931 and carried by the government under the item "Current Deficit." The other pertains to an overdue payment on the Los Altos Maintenance Contract, amounting on March 1, 1931 to \$196,791.

Note 23a. The Consolidated Municipal 7½s are an obligation of ten cities and 38 towns in Hungary, each being liable in proportion to its share in the proceeds of the loan. These municipalities include all the cities of Hungary except Budapest. Bonds are specifically secured by a lien on the income tax on profits and the amount of the turnover tax on sales assigned annually to these municipalities, which taxes are collected by the Hungarian government; by a lien on the consumption and octroi taxes, collected directly by the municipalities; and on the net receipts of their public utility and other properties.

The 7 per cent loan of 1926 was issued with the approval and under the control of the Royal Hungarian Government, and are the direct obligations of 32 municipalities. They are secured in a manner similar but junior to the 7½s of 1925.

The Counties bonds were sold in London in two series of £1,250,000 and £1,000,000 respectively. They are a direct obligation of 25 Hungarian counties, each being liable in proportion to its share in the proceeds of the loan.

The Budapest 6s are an unsecured obligation of Hungary's capital city and were purchased in 1927 by an American banking institution said to have been the successful bidder out of 36 American firms competing for the business.

The Discount Bank 7s are secured by an obligation of the city of Debreczin equal to the principal amount of the loan.

On December 22, 1931 the Hungarian government issued the following statement establishing a partial moratorium on the transfer of payments on external obligations:

"Owing to the exceptional decline in the price of the principal Hungarian exports and the consequent diffi-

*From Special Report No. 14, prepared by Commercial Attaché Bohan at Guatemala City under date of March 9, 1931.

culty in present circumstances of obtaining sufficient exchange for foreign debt remittances, the Hungarian Government is under the necessity of suspending the payment abroad in foreign currencies with certain exceptions of the Hungarian financial obligations, public and private, as from December 23, 1931.

"The Hungarian Government accordingly proposes to apply the foreign currency at its disposal in the first place to the service of the 7½ per cent State Loan of the Kingdom of Hungary 1924 and then, so far as the supply of foreign exchange permits, to the Secured Relief Loan, the interest or discount on the Secured Treasury Bills, the service payment of the Caisse Commune, the Austro-Hungarian State Railway, the Danube-Save-Adriatic Railway, the payments to be made under the London Protocol of August 11, 1931, the service payments of the Pre-War Loans of the City of Budapest under the Ostende Agreement of August 14, 1925 and for the purpose of preserving the commerce of the country. . . .

"Holders of all State or State guaranteed loans other than loans payable in pengoes or of the loans of Hungarian public authorities or other loans excluding all short term loans the service of which is not fully met in foreign currencies are called upon, pending final settlement, to postpone their claims for the next twelve months on the deposit in pengoes being made as mentioned below. In so far as these pengoe deposits earn interest, such interest, less the expenses incidental to their administration, will be applied for the benefit of the creditors.

"The Hungarian Government and the National Bank of Hungary will guarantee that for the aforementioned period more favorable arrangements will not be made in any particular cases referred to in the preceding paragraph. In the meantime the full service of all such loans will be collected in pengoes at the rate quoted the day previous by the National Bank of Hungary and paid into a blocked account at the National Bank of Hungary for the benefit of the bond holders. This account will be administered by the National Bank in agreement with the adviser at the National Bank, who will consult with any representative whom the creditors as a body may nominate on all matters concerning the management of the account."

Note 24. Beginning with January 1926, Jugoslavia is paying with each due coupon of the Montenegro 5 per cent loan of 1909 one arrear coupon. At the present time, three coupons are still in arrears. Sinking fund payment on bonds was resumed in 1923.

Note 25. The city of Riga has been in default since May 1918. In June 1930 a conference was held at Riga relative to a settlement of the municipal debt, and attended by representatives of the bankers, the Latvian government and the city.

Note 26. The Wolmar Railway Company has outstanding a 4½ per cent loan of £178,760, of an original issue of £179,880. The loan was sanctioned by the Russian government in 1910 for the purpose of constructing a railway of about 71 miles, taking the entire capital stock of 560,000 rubles and paying for it in cash.

Bonds have been in default since December 1917.

In January 1922, bondholders were requested by the British Bank for Foreign Trade to submit their bonds on the basis of a cash settlement of £40 for each £100 par value, the price of £40 to cover accrued interest and sums payable in respect of bonds drawn for redemption. The Bank failed, however, to carry out the agreement and, under a decision of the District Court of Riga, bondholders' claims were to be regarded as settled by the deposit of a sum in paper rubles in payment of the sterling bonds. This sum was equivalent to only £1,307. An appeal was made, as a result of which the decision was upset, and in December 1927 the Latvian Senate handed down a final verdict in favor of the British bondholders.

Note 27. Under date of July 25, 1930, an agreement was reached between the Mexican government and the International Committee of Bankers, acting on behalf of holders of Mexican obligations. The agreement provides for the scaling-down and funding of the Mexican government so-called direct debt in 5 per cent bonds of a new issue. The direct debt includes the External 5s of 1899, the External 4s of 1904, the External 4s of 1910, and the Treasury Bonds 6s of 1913.

The new conversion bonds were to be secured by a first lien on the customs receipts of the republic and were to be divided into two series, "A" and "B." The former was to be secured by a first lien on the pledged customs and was to be given to holders of the Mexican government debt which enjoys the benefit of specific security. The series "B" bonds, on the other hand, were to rank, in point of security, after series "A," and were to be exchanged for obligations of the present Mexican unsecured debt. The interest rate on both series was to commence at 3 per cent per annum, rising gradually to 5 per cent, which figure series "A" was to attain by 1935, and series "B" one year later.

In the case of the railway debt, it was suggested that the bonds would also be converted into a new issue of 5 per cent obligations, to be secured by general mortgage on the Mexican railway system. Interest was to be paid at a graduated rate, attaining 5 per cent within 5 years from the commencement of payment.

The Mexican government agreed to provide annuities beginning with \$12,500,000 in 1931 and rising gradually to \$15,000,000 in 1936, at which figure they were to remain during the balance of the 45-year period stipulated for the entire redemption of the Mexican government debt, including direct as well as railway obligations.

Due to the substantial decline in the Mexican exchange, the agreement was not ratified. A supplemental agreement was entered into, which postpones for a period of two years the annuities referred to. In the meantime, however, the government agrees to pay to the committee, or to the credit of the committee, the required amounts on a silver basis, disbursements to be made to bondholders as and when exchange conditions allow.

It was announced on December 29, 1931, that the special session of the Mexican Congress, which is expected to open January 10, will take up the Lamont-Montes de Oca debt agreement as its principal problem.

Note 28. On March 1, 1931, Peru announced that it could no longer take care of payments upon its external debts. It was also stated that the republic fully acknowledged its contractual obligations, but that continued payment of interest and sinking fund would jeopardize the economic life of the country. A new arrangement is being sought on the basis of the nation's ability to pay.

A cable was sent to the government bankers in New York by Rafael Larco Hereira to the effect that Peru would send a financial commission to confer upon its indebtedness with a view to adjusting the situation.

On April 1 the Peruvian government defaulted upon the payment of charges on the Peruvian National Loan, second series, of which \$25,000,000 had been issued.

Note 29. By virtue of a decree promulgated under date of February 3, 1918, the Soviet Union announced that it would no longer meet the service on Czarist Russia's obligations.

Note 30. On November 22, 1930, the various European protective associations, acting on behalf of holders of Turkish government bonds, announced that Turkey had failed to provide payments according to the provisions of the contract of June 13, 1928, such payments being due November 25, 1930. In May of last year, the Turkish government asked for certain modifications of the debt agreement, in view of the serious financial situation of the country, and, while certain modifications appear to have been conceded, the Turkish government has so far failed to carry out the provisions of the contract.

While negotiations are now being carried on for an adjustment of this matter, no payment has been made to bondholders.

Note 31. The advocates of debt repudiation in foreign countries have been strengthened by the precedent given by the states of Mississippi, Arkansas, and Florida nearly 90 years ago.

Between 1831 and 1838 Mississippi contracted two loans, the proceeds of which were used for the establishment of the Planters Bank and the Union Bank. The first bond issue amounted to \$2,000,000 and the second totalled \$5,000,000. In 1841 Mississippi defaulted on both issues and 34 years later passed a constitutional amendment which forbade the recognition of these debts. A substantial por-

tion of the bonds were sold in Great Britain and are still held in that country.**

Florida's repudiated debt totals \$7,900,000, of which \$3,900,000 represents bonds issued or endorsed for banks between 1834 and 1839, and the balance bonds issued in 1870 for the aid of the railroads.

In addition to the cases given, at one time or another each of the following states either partially or wholly defaulted certain outstanding obligations: Alabama, North Carolina, South Carolina, Georgia, Louisiana, Tennessee, Michigan, Minnesota and Virginia. A number of municipalities in the United States have also defaulted with respect to interest and sinking fund, especially in the state of Florida.

APPENDIX ORGANIZATIONS OF FOREIGN BONDHOLDERS*

GREAT BRITAIN

The Corporation of Foreign Bondholders of Great Britain was founded in 1868, incorporated in 1873 under License from the Board of Trade, and reconstituted in 1898 by Special Act of Parliament. Under that Act the Council of the Corporation consists of twenty-one members, of whom six are nominated by the British Bankers' Association, six by the London Chamber of Commerce, and nine are co-opted by the Council as a whole—that is by the votes of both the representative and the co-opted members. A majority of the members of the Council are thus appointed by independent outside bodies.

The principal object of the corporation is the protection of the interests of the holders of foreign securities. In addition to this, however, it keeps elaborate records regarding the economic and financial condition of the various states with whose debts it is called upon to deal, and these records are readily placed at the disposal of investors or other interested parties. The Annual Reports of the Council contain a large amount of valuable information and are circulated all over the world.

The Council may, and in some cases do, act on their own initiative. For instance, they appoint the British representatives on the Councils of the Repartitioned Public Debt of the Former Ottoman Empire and of the *Caisse Commune* of the Austrian and Hungarian pre-war public debts, and they have frequently intervened on behalf of individuals whose rights have been prejudiced by the action of foreign governments.

As a general rule, however, the Council act through various bondholders' committees associated with them under the rules and regulations of the corporation. In the case of the default of a foreign state, or in other circumstances where the rights of bondholders are interfered with, the practice of the Council is, on their intervention being solicited by a requisition from those interested, to convene a public meeting of bondholders and suggest that a committee to take charge of the particular interests affected should be appointed either by the meeting or by the Council on its nomination, the former course being usually adopted.

The president and vice-president of the Council are *ex officio* members of all committees, and, if deemed desirable, the Council appoint one or two of their other members to serve thereon in order that the Council and the committees may be kept in touch. These committees carry on the negotiations

for a settlement, and advise the Council as to whether proposals made by a foreign state shall or shall not be recommended for acceptance by the general body of the creditors. The Council, of course, reserve entire freedom of action to themselves, but happily no case involving any material difference of opinion has yet arisen, and the history of the past fifty-seven years shows that the relations between the Council and the various bondholders' committees have been of a thoroughly harmonious and cordial character.

The invested funds of the Corporation amount to about £200,000, and yield a revenue of about £9,000 a year. Any surplus remaining, after defraying expenses, becomes part of the general fund of the corporation, which is held by the Council as trustees for the benefit of British investors, and neither the president nor the members of the Council have any personal interest in it beyond the sums fixed for their remuneration by Act of Parliament.

FRANCE

The *Association Nationale des Porteurs Français de Valeurs Mobilières* (National Association of French Holders of Securities) is the principal non-governmental agency in protecting the rights of French holders of foreign securities. This association was founded in 1898, under the patronage of the Stock Brokers' Syndicate of Paris. It was recognized as of public utility by a decree dated September 24, 1919. Its board of directors includes such personages as the honorary general secretary of the Stock Brokers' Association of Paris, the under governor of the *Crédit Foncier de France*, the director general of the Bank of Algeria, a professor of the Faculty of Law of Paris, a prominent government engineer, and the honorary inspector general of finances. The *Association Nationale* is made up of four groups of French holders of private French securities or foreign securities, whether governmental or private. It does not represent the holders of *rentes* and other securities issued by the French state. It negotiates in the name of its members up to the point where the affair becomes one of diplomatic or government interest. It brings suits in the name of its members. When diplomatic action is taken, it serves in a consultant capacity, aiding with documentary and legal counsel. This organization controls the bulk of the interest of French holders of foreign securities. In recent years a number of other associations have sprung up in France, having for their avowed purpose the protection of the holders of some specific bonds or the bonds issued from particular areas.

*The information regarding the organizations in various European countries for the protection of foreign bondholders is obtained from the report prepared by H. Merle Cochran, U. S. Consul at Basle, Switzerland, published as *Special Circular No. 359*, by the Bureau of Foreign and Domestic Commerce, August 5, 1931.

**For details, cf. report of the study of John T. Madden, dean of the School of Commerce, Accounts and Finance of New York University, published in the *Journal of Commerce*, October 20, 1931.